

# STANDARD & POOR'S

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reference no.: 702531

## REVISED COPY

February 10, 2005

City of Lynchburg  
City Hall  
900 Church Street  
Lynchburg, VA 24505  
Attention: Mr. Michael W. Hill, CPA, Director of Financial Planning

RECEIVED  
MAR 07 2005

FINANCE DEPT. DIRECTOR

Re: ***US\$36,915,000 City of Lynchburg, Virginia, General Obligation Refunding Bonds, Consisting of: \$33,105,000 Public Improvement Series 2005A (due: June 1, 2007-2025, Term Bonds due: June 1, 2030); and \$3,810,000 Taxable Series 2005B (due: June 1, 2007-2014), dated: Date of Delivery***

Dear Mr. Hill:

Pursuant to your request for a Standard & Poor's rating on the above-referenced obligations, we have reviewed the information submitted to us and, subject to the enclosed *Terms and Conditions*, have assigned a rating of "AA". Standard & Poor's views the outlook for this rating as stable. A copy of the rationale supporting the rating is enclosed.

The rating is not investment, financial, or other advice and you should not and cannot rely upon the rating as such. The rating is based on information supplied to us by you or by your agents but does not represent an audit. We undertake no duty of due diligence or independent verification of any information. The assignment of a rating does not create a fiduciary relationship between us and you or between us and other recipients of the rating. We have not consented to and will not consent to being named an "expert" under the applicable securities laws, including without limitation, Section 7 of the Securities Act of 1933. The rating is not a "market rating" nor is it a recommendation to buy, hold, or sell the obligations.

This letter constitutes Standard & Poor's permission to you to disseminate the above-assigned rating to interested parties. Standard & Poor's reserves the right to inform its own clients, subscribers, and the public of the rating.

Standard & Poor's relies on the issuer/obligor and its counsel, accountants, and other experts for the accuracy and completeness of the information submitted in connection with the rating. This rating is based on financial information and documents we received prior to the issuance of this letter. Standard & Poor's assumes that the documents you have provided to us are final. If any subsequent changes were made in the final documents, you must notify us of such changes by sending us the revised final documents with the changes clearly marked.

Mr. Michael W. Hill, CPA

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To maintain the rating, Standard & Poor's must receive all relevant financial information as soon as such information is available. Placing us on a distribution list for this information would facilitate the process. You must promptly notify us of all material changes in the financial information and the documents. Standard & Poor's may change, suspend, withdraw, or place on CreditWatch the rating as a result of changes in, or unavailability of, such information. Standard & Poor's reserves the right to request additional information if necessary to maintain the rating.

Please send all information to:

Standard & Poor's Ratings Services  
Public Finance Department  
55 Water Street  
New York, NY 10041-0003

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Sincerely yours,

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By: Steven J. Murphy  
Managing Director

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enclosures

cc: Mr. John J. Conrad, Vice President, Public Finance  
BB&T Capital Markets

Publication date: 14-Feb-2005  
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## Summary: Lynchburg, VA

Primary Credit Analyst(s): Baltazar Juarez, New York (1) 212-438-7999; baltazar\_juarez@standardandpoors.com  
Secondary Credit Analyst(s): Geoffrey Buswick, Boston (1) 617-530-8311; geoffrey\_buswick@standardandpoors.com

### Credit Profile

US\$40.685 mil GO pub imp  
rfdg bnds ser 2005 dtd  
03/01/2005 due 06/01/2030  
AA

Sale date: 23-FEB-2005

AFFIRMED  
Outstanding GO bnds  
AA

OUTLOOK: STABLE

### Rationale

The 'AA' long-term rating on the City of Lynchburg, Va.'s series 2005 and outstanding GO bonds reflects:

- A diverse and stable local economy that serves as a regional employment base and commercial center;
- Good financial operations bolstered by financial policies and historically strong reserve levels; and
- A moderate debt burden with a manageable future capital plan.

These factors are offset by wealth levels that are well below average and an unemployment rate that remains above average.

The series 2005 and outstanding GO bonds are secured by the city's full faith and credit pledge. Series 2005 bond proceeds will be used to refund outstanding series 1996, 1997, 1998A, and 2000 bonds for net present value savings.

The City of Lynchburg encompasses 50 square miles and is located in the central part of the commonwealth. The city's population is estimated at 66,900, and has remained fairly stable over the past decade. Lynchburg's local economy serves as an employment and commercial center for a four-county metropolitan area that has a population of about 236,000. Indeed, per capita retail sales are very high at 197% of the commonwealth and 193% of the national averages. Within the city, the service sector is the leading employment sector and accounts for 29.5% of employment, followed by manufacturing at 23.0% and trade at 20.7%. The city's largest employer is Centra Health Inc., a health care provider, with 4,000 employees. Other leading employers in the area include Areva (1,700, maintenance and repair of nuclear power plants); Central Virginia Training Center (1,600, health care); and Lynchburg City Schools (1,554). Unemployment reached a low 2.1% in 2000. However, as a result of the economic downturn and the closure of Ericson Electronics--which in 2000 had 3,500 employees--the city's unemployment rate increased over the past five years. Through November 2004, the unemployment rate was 5.36%, which is still above the commonwealth's 3.48%, but slightly below the nation's 5.49%.

While Lynchburg serves as an employment and commercial center for the region, the city's wealth levels remain well below the commonwealth and national averages. Median household effective buying income is 69% of the commonwealth and 76% of the national levels. Similarly, per capita effective buying income is 74% of the commonwealth and 82% of the national levels.

The city's tax base is large, exhibits no taxpayer concentration, and has been increasing at a healthy pace. Lynchburg's 2003 tax base totaled \$3.9 billion, or a moderate \$58,531 per capita market value. Over the past five years, growth in the tax base has been healthy, averaging 5.5% annually. Strong ongoing building activity has contributed to this growth. In 2003, the value of building permits peaked at \$147.5 million. In 2004, the value totaled \$110.9 million, with commercial construction accounting for 56% and residential 41%. Moreover, there is no concentration in the tax base, with the 10 leading taxpayers accounting for only 10% the city's assessed valuation.



The city's financial performance and position remain strong.

Audited fiscal 2004 general fund results indicate a surplus of \$1.9 million. The ending unreserved general fund balance totaled \$22.8 million, or a strong 16.4% of expenditures, compared to \$20.9 million, or 15.6% of expenditures, in fiscal 2003. For fiscal 2005, year to date, management projects a small surplus and reserves similar to fiscal 2004--which is well above the city's formal policy of 10% of expenditures policy.

The city's overall debt burden remains moderate at \$1,739 per capita, or 3.0% of market value. In fiscal 2004, debt service carrying charges were high at 16% of expenditures. However, amortization on outstanding debt is faster than average, with 70% of principal retired within 10 years, 95% within 20 years, and 100% by 2033. The city does not have any variable-rate debt nor is it engaged in any swaps.

Future capital needs are manageable. The city uses a five-year capital improvement plan to manage its capital needs. The current plan (2005-2009) totals \$190.2 million, of which \$73.3 million is for general for general projects; \$59.9 million for water and sewer projects, \$38.9 million for schools, and \$15.0 million and \$3.1 million for airport and solid waste, respectively. The bulk of the plan is expected to be financed by GO bonds (\$98.2 million); revenue bonds and loans (\$26.6 million); and pay-as-you-go and state and federal funds (\$65.4 million).

## Outlook

The stable outlook reflects the expectation that the city will continue to maintain good financial operations, a healthy fund balance, and manageable debt service carrying charges.

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